THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

A. RANDY WATTS

AUGUST 20, 2009



DOCKET NO. 2009-168-E

PROGRESS ENERGY CAROLINAS, INC.'S MOTION FOR PARTIAL WAIVER OF COMMISSION RULES 103-331 AND 103-336

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20, 2009			

1		DIRECT TESTIMONY OF
2		A. RANDY WATTS
3		ON BEHALF OF
4,	, to produce a specific constant	THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
5		DOCKET NO. 2009-168-E
6		GENERIC PROCEEDING
7	IN R	E: PROGRESS ENERGY CAROLINAS, INC.'s MOTION FOR PARTIAL WAIVER
8		OF COMMISSION RULES 103-331 AND 103-336
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10	Q.	PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.
11	A.	My name is Randy Watts. My business address is 1401 Main Street, Suite 900,
12		Columbia, South Carolina 29201. I am employed by the State of South Carolina as
13		Program Manager of the Electric Department for the Office of Regulatory Staff ("ORS").
14	Q.	PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.
15	A.	I received a Bachelor of Science Degree in Electrical Engineering from the
16		University of South Carolina in Columbia in 1976. I was employed at that time by the
17		Public Service Commission of South Carolina ("Commission") as a Utilities Engineer in
18		the Electric Department and was promoted to Chief of the Electric Department in August
19		1981. Subsequent to internal Commission restructuring, my position was redesignated
20		Chief of Electric in October 1999. I remained in that role until transferring to my current
21		position with ORS in January 2005. I have testified on numerous occasions before the
22		Commission in conjunction with fuel clause, complaint, territorial assignment, Siting Act,
23		Base Load Review Act and general rate case proceedings.

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Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

The purpose of my testimony is to provide ORS's comments addressing the proposed expansion to all South Carolina investor-owned electrical utilities of the partial waiver of Commission Rule 103-331 and a partial waiver of Rule 103-336. Duke Energy Carolinas, LLC ("Duke") is the only South Carolina utility that currently has a waiver of Rule 103-331 in place. The Commission in its Notice of Generic Hearing in this matter indicated a desire to have uniformity among the utilities regarding these Rules, and directed Progress Energy Carolinas, Inc. ("Progress"), Duke, South Carolina Electric & Gas Company ("SCE&G"), Lockhart Power Company ("Lockhart"), and ORS to file testimony in this proceeding.

Q. MR. WATTS, ARE YOU FAMILIAR WITH DUKE'S ORIGINAL REQUEST FOR A PARTIAL WAIVER OF RULE 103-331?

Yes. Duke made its request in June 2004 under Docket No. 2004-169-E for a partial waiver of Rule 103-331 to be applicable to the deposit requirements of non-residential accounts. At that time the Commission expressed concern and a desire for additional information regarding such issues as specificity of evaluation criteria, applicability, impact to economic development, impact on distressed industries, comparability to treatment in North Carolina and experiences in that state, and availability of an appeal process. Duke provided the Commission with additional information addressing these questions and concerns in early July 2004. The Commission, in an abundance of caution, approved the request on a one-year experimental basis and required Duke to report at the end of the one year period on the use of this provision including any resulting complaints. In September 2005, Duke

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provided the Commission with a report reflecting the waiver had yielded only one
customer that was identified as needing to accelerate payments, and no customer
complaints were received. The Commission subsequently issued Order No. 2005-600 in
October 2005 continuing the partial waiver on a non-experimental basis.

Q. WHAT IS ORS'S ASSESSMENT OF THE EFFECTIVENESS OF THE WAIVER AT THIS POINT?

It appears that Duke has been very successful in applying the evaluation and rating criteria and then analyzing the resulting credit worthiness of its nonresidential customers. Duke states that, once it is determined that a customer meets the threshold for a deposit requirement, Duke attempts to work with the customer on security options that do not involve the payment of a two-month cash deposit such as an accelerated payment plan, surety bond, bank letters of credit or some combination of these. Under this procedure Duke has mitigated the risk while minimizing the impact to the customer as well as the potential burden on the general body of ratepayers from uncollectibles. Duke reports that during 2007 and 2008 a total of 41 accounts with a monthly revenue exposure of \$10.8 million met the criteria for review and only 5 of these were determined to require a form of security. Application of the procedures in these cases assisted in the mitigation of losses that would have resulted when 4 of these 5 accounts went into bankruptcy. Also for this calendar year through June 2009 Duke states it has been able to mitigate losses of approximately \$900,000 on two (2) customer accounts that went into bankruptcy due to the use of these approved guidelines in conjunction with the Rule waiver. Through use of the partial waiver of Rule 103-331 and application of the criteria for review of customers' credit worthiness Duke has been able to avoid losses and

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- Q. BESIDES DUKE, ARE THE OTHER THREE SOUTH CAROLINA INVESTOROWNED ELECTRICAL UTILITIES EXPERIENCING SIMILAR
 - Yes. Included in the testimonies of the witnesses for both Progress and SCE&G are examples and data reflecting write-offs that could possibly have been mitigated through application of the Rule 103-331 partial waiver along with corresponding credit risk assessment procedures. In addition I have confirmed similar circumstances and concerns through discussions with Lockhart.
- Q. IF THE COMMISSION WERE TO APPROVE THE PARTIAL WAIVER OF
 RULES 103-331 AND 103-336 FOR NONRESIDENTIAL CUSTOMERS, WHAT
 SAFEGUARDS ARE AVAILABLE TO THESE CUSTOMERS?
 - Any customer who feels aggrieved by implementation of the waiver of these Rules and concomitant use of risk analysis procedures will continue to have the option of bringing any concerns to the attention of the ORS Consumer Services Department as well as the Public Service Commission through the complaint process. This same option is currently available to all of the investor-owned electrical utility customers. It is worth noting again that, in situations where the utilities determine it is necessary to seek security of payment, most of the options are less onerous than the maximum two-month deposit requirement.

uniformity as ORS does in the normal course of its duties. Since the objective of the electrical utilities is to assist customers in remaining a viable entity, it is reasonable to expect them to invoke the use of these criteria only when the risk analysis indicates the customer's financial condition has deteriorated to the point that payment security is

DOES ORS SUPPORT THE REQUEST FOR PARTIAL WAIVER OF COMMISSION RULES 103-331 AND 103-336 TO APPLY TO ALL INVESTOR-OWNED ELECTRICAL UTILITIES OPERATING IN SOUTH CAROLINA?

Yes. The empirical data from the past two and one half years of implementation by Duke indicates the success of the partial waiver of Rule 103-331 to mitigate and reduce uncollectibles in a manner fair and appropriate to all parties. The additional request for a partial waiver of Rule 103-336 would allow the utilities to retain a deposit currently in its possession if the risk analysis shows the continued need for payment security. ORS believes the request is reasonable and in the public interest.

O. DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes, it does.

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2009-168-E

IN RE:	Progress Energy Carolinas, Incorporated's Motion for Partial Waiver of Commission Rules 103-331)	CERTIFICATE OF
	and 103-336)	SERVICE

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **DIRECT TESTIMONY OF A. RANDY WATTS** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Len S. Anthony, Esquire Progress Energy Carolinas, Incorporated Post Office Box 1551 Raleigh, NC, 27602

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Chrystal L. Morgan

August 20, 2009 Columbia, South Carolina